

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 EB-11 AID-20 IGA-02 AGR-20 OMB-01

CIEP-03 TRSE-00 NSCE-00 FEAE-00 INT-08 COME-00 IO-14

SSO-00 USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03

INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 DRC-01 /155 W

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O 251110Z SEP 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC IMMEDIATE 7829

C O N F I D E N T I A L PHNOM PENH 12847

E.O.11652: GDS

TAGS: PFOR MASS CB

SUBJECT: DEPARTMENT REQUEST FOR CURRENT UPDATE

REF: A. STATE 209405

B. PHNOM PENH 12436

C. PHNOM PENH 12458

D. PHNOM PENH 12755

E. PHNOM PENH 12726

1. IN RESPONSE TO REQUEST CONTAINED IN REFTEL (A) AND
DRAWING ON SUBSTANCE OF REFTELS (B), (C), AND (D), SUGGEST
FOLLOWING ESSENTIAL POINTS BE MADE TO BRADY/SULLIVAN IN
SEPTEMBER 26 UPDATE BRIEFING:

A. THE ECONOMIC REFORM PACKAGE REPRESENTED AN ACT
OF CONSIDERABLE COURAGE ON THE PART OF THE GKR FOR WHILE
THE MEASURES TAKEN WERE OF OVERALL BENEFIT TO THE ECONOMY
THEY WERE FAR FROM UNIVERSALLY POPULAR.

B. THE BASIC PURPOSE OF THE REFORM PACKAGE WAS TO
REDRESS IMBALANCES IN THE CAMBODIAN ECONOMY, ENCOURAGE
LOCAL PRODUCTION AND REDUCE CONSUMPTION OF IMPORTED RE-
SOURCES. THIS IN TURN WILL LEAD TO MORE EFFICIENT UTILI-

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ZATION OF U.S. ASSISTANCE.

C. THE INCREASE IN RICE PRICES WAS DESIGNED TO HOLD DOWN ON CONSUMPTION OF RICE WHILE AT THE SAME TIME SPURRING LOCAL PRODUCTION. THE RICE PRICE INCREASE WILL ALSO REDUCE THE POSSIBILITY OF ILLEGAL EXPORTS. IN A SIMILAR FASHION THE POL PRICE INCREASE WILL CONSERVE ON FUEL WHILE PREVENTING EXPORT.

D. IN SETTING UP THE THREE-TIER EXCHANGE SYSTEM THE AIM WAS TO PROVIDE GREATER REVENUES FOR THE GKR, THEREBY FUNDING NECESSARY PAY RAISES WITHOUT ADDITIONAL DEFICIT SPENDING AND RESULTING INFLATIONARY PRESSURES. SINCE THE KHMER UPPER CLASSES RELY MORE ON IMPORTED GOODS THAN THE WORKING CLASSES, THE EFFECT OF THE INCREASE OF THE EXCHANGE RATE HAS BEEN TO HELP EQUALIZE THE WAR BURDEN.

E. IN ADDITION THE NEW EXCHANGE SYSTEM SHOULD GREATLY REDUCE IF NOT ELIMINATE BLACK MARKET DOLLAR TRANSACTIONS AND INCREASE THE GKR'S FOREIGN EXCHANGE EARNINGS.

F. THE MILITARY PAY RAISE WAS STRUCTURED TO INCREASE THE INTERVENTION FORCES. THE NON-INTERVENTION PAY RAISE DESCRIBED IN REF (D) RESULTED IN AN IMMEDIATE REDUCTION IN FANK PAYROLLS IN ORDER TO GET A HANDLE ON THE PHANTOM PROBLEM.

G. ANOTHER EXAMPLE OF EFFORTS BY THE EMEBASY AND MEDTC TO PREVENT WASTE OR DIVERSION OF U.S.-FUNDED ASSETS IN THE AREA OF AVIATION GAS. IN ORDER TO MINIMIZE THE NUMBER OF PERSONS INVOLVED IN THE HANDLING OF AVGAS BETWEEN CONVOY TANKER DOCKSIDE AND ACTUAL USE IN KAF OPERATIONS, A CONTRACT WAS NEGOTIATED WITH SHELL, WHEREBY THE LATTER OFFLOADS THE AVGAS PRODUCT FROM THE SHIP INTO ITS DOCKSIDE DEPOT. THE PRODUCT IS THEN TRANSPORTED TO POCHENTONG AIRBASE BY SHELL TANK TRUCKS WHICH ARE THEN DRIVEN ALONGSIDE THE INDIVIDUAL AIRCRAFT; GAS IS PUMPED INTO THE PLANE'S WING TANKS WHILE BEING METERED AS IT LEAVES THE TRUCK. THIS CONTRACT HAS BEEN IN EFFECT SINCE AUGUST 26 AND IS WORKING WELL.

2. WITH THE ECONOMIC REFORM PACKAGE IN THE FIRST STAGES OF IMPLEMENTATION REACTION CANNOT BE FULLY MEASURED. GENERALLY PRESS COVERAGE HAS BEEN FAVORABLE AND THOSE

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KHMERS WITH SOME KNOWLEDGE OF ECONOMICS HAVE SEEN A NEED FOR THE REFORMS. ON THE OTHER HAND THE INCREASE IN RICE PRICES HAS CAUSED CONSIDERABLE ADVERSE REACTION AND A FEW INSTANCES OF LOOTING HAVE BEEN REPORTED. THE PAY RAISES WHICH GO INTO EFFECT ON OCTOBER 1 SHOULD DAMPEN CRITICISM; HOWEVER, UNTIL PAY IS RECEIVED WE EXPECT CONTINUED RESTLESSNESS OVER PRICE INCREASES.

3. DEPARTMENT MAY WISH TO DISCUSS ECONOMIC REFORM PACKAGE FURTHER WITH AID SUPPORTING ASSISTANCE BUREAU FOR ADDITIONAL PERSPECTIVE.

4. WITH RESPECT TO THE REAPPEARANCE OF LON NON, DEPARTMENT MAY WISH TO DRAW UPON REFTEL (E) WHICH DESCRIBES THE CIRCUMSTANCES OF THIS RETURN. HE HELD A TWO AND ONE HALF HOUR PRESS INTERVIEW AT HIS HOME ON SEPTEMBER 23, WHICH WAS SUMMARIZED BY AP AND AFP, AND IN WHICH HE SAID NOTHING VERY NEW OR SIGNIFICANT, OTHER THAN THAT HE WAS AVAILABLE FOR WHATEVER ASSIGNMENTS THE FUTURE MAY BRING HIM. EMBASSY DOES NOT BELIEVE HIS RETURN HAS HAD MUCH OBSERVABLE IMPACT YET UPON THE LOCAL POLITICAL SCENE. GKR ATTENTION CONTINUES TO BE FOCUSED LARGELY ON TWO KEY PROBLEMS: THE UPCOMING KHMER CREDENTIALS QUESTION AT THE UN AND THE ULTIMATE OUTCOME OF CONGRESSIONAL ACTION ON U.S. ECONOMIC AND MILITARY ASSISTANCE.

5. EMBASSY IS NOT AWARE OF PRESS REPORTS FROM PHNOM PENH IN RECENT WEEKS WHICH FIT THE DESCRIPTION IN REFTEL (A), OTHER THAN THE SCHANBERG SERIES IN NEW YORK TIMES, WHICH WERE WRITTEN AND FILED FROM KONG KONG LONG AFTER THIS LAST VISIT HERE, AND WHICH SEEMED TO US TO CONTAIN ALMOST NOTHING NEW, BUT TO BE BASED ON A REHASH OF OLD, VAGUE AND RATHER SUBJECTIVE MATERIAL.
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